

**WATER/SNR/MEY:jrb**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**WATER DIVISION**

**RESOLUTION NO. W-4532**

**April 21, 2005**

**R E S O L U T I O N**

**(RES. W-4532), CALIFORNIA WATER SERVICE COMPANY  
(CWS). ORDER AUTHORIZING CWS TO ACQUIRE LOS  
TRANCOS COUNTY WATER DISTRICT NEAR CWS's BEAR  
GULCH DISTRICT**

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**SUMMARY**

By Advice Letter No. 1658, filed April 9, 2004, California Water Service Company (CWS) seeks approval for the acquisition of Los Trancos County Water District (Water District) near CWS's Bear Gulch District. The purchase price is \$125,000 even though the June 30, 2004 book value is \$3,326,790. In addition, the water rates for the existing Water District customers generally will be less under CWS's current Bear Gulch Tariff.

**BACKGROUND**

CWS, a Class A water company, is the state's largest privately-owned water utility, serving over 455,000 customers in 24 operating districts. The Bear Gulch district produces, distributes, and sells water to approximately 17,600-metered customers located generally in the cities of Atherton, Menlo Park, the towns of Portola Valley and Woodside, as well as the unincorporated areas of San Mateo County adjacent to those communities.<sup>1</sup>

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<sup>1</sup> In D.03-09-021 to CWS's General Rate Case application A.01-09-063, the adopted active metered connections for year 2003 are 17,405, with 230 private and public fire service connections. This brings a total of 17,635 active connections including all fire services.

In support of its Advice Letter No. 1658 filing, CWS provided the tariff Schedule No. BG-1, General Metered Service, among its list of attachments. CWS intends to use this rate schedule for the Los Trancos Water District's customers.

However, the copy submitted has an effective date of January 12, 2004, and it is no longer current. Since the issuance of D.03-09-021 to CWS's General Rate Case (GRC) application A.01-09-063 for the Bear Gulch District, there have been five Advice Letter filings.

Advice Letter No. 1597: filed December 11, 2003, and it became effective on January 12, 2004. CWS seeks an attrition increase as allowed for in the GRC decision D.03-09-021.

Advice Letter No. 1631: filed March 29, 2004. CWSC seeks to retain a \$66,331 net under-collection, including interest, for later recovery. This recovery includes an adjustment of \$2,303 due to over-earnings in 2001 and a \$528,761 adjustment due to over-earnings in calendar year 2002.

Advice Letter No. 1632: filed March 29, 2004. CWSC seeks revision to its tariff Schedule No. BG-1, General Metered Service, by assessing a surcharge of \$0.0730 per Ccf over 12 months, to recover a \$400,355 or 2.67% under-collection, including interest. This recovery includes no adjustment due to over-earnings in calendar year 2003.

Both Advice Letters, No. 1631 and No. 1632, were approved under the same Commission resolution W-4477, and they became effective September 28, 2004.

Advice Letter No. 1689: filed November 22, 2004, and it became effective on January 1, 2005. CWS seeks an attrition increase as allowed for in the GRC decision D.03-09-021.

Advice Letter No. 1658: filed April 9, 2004. With this Advice Letter, CWS seeks approval for the acquisition of Los Trancos County Water District (Water District) near CWS's Bear Gulch District.

CWS files this instant Advice Letter No. 1658 pursuant to Commission decision D.97-03-028 in application A.95-09-005 et al dealing with CWS's GRC applications for five districts (Bakersfield, Hermosa-Redondo, Stockton, East Los Angeles and Visalia). That decision, in part, approves a memorandum of

understanding entered into between CWS and the Commission's Water Division, dealing with procedures by which CWS will notify the Commission of service area extensions.

The memorandum of understanding was the result of the 1995 GRC applications review during which CWS sought proposed rate adjustments for acquisition of four small water systems (of which one was a mutual water company and three were operated by a city and by water districts) in areas that were contiguous to CWS service territories. The Commission stated that, pursuant to General Order (GO) 96-A, Section I(E), extension of service into contiguous territory not served by a public utility of like character requires advance filing of a revised service area map. Normally, after such a filing, any changes in rate base or rates caused by the extensions are reviewed and approved or disapproved in the utility's next GRC. Since the GO 96-A filings were not made in advance of the 1995 GRC applications, the Commission noted that a prior review of the extensions and acquisitions had not been conducted, and thus the Commission lacked a record upon which to approve the effects that those changes had on rate base and rates.

The Los Trancos County Water District (Water District) was created in 1955 when residents of the area voted to create the public agency. The original water system was constructed when the Los Trancos Woods subdivision was developed in the early 1920's as a summer home community for people from San Francisco and for some professors from Stanford University. The water supply, built by the developer, consisted of water pumped from Los Trancos Creek and stored in 2 small earthen reservoirs. A sand filter and a network of small diameter pipes formed the treatment and distribution elements of the system. By the early 1950's as more and more of the homes became full time residences, the water system was not only deteriorating but also lacked the capacity to serve the needs of the community.

The then, newly-created Water District acquired the deteriorating and inadequate water system, and issued bonds to pay for needed system improvements and for a transmission line to connect with the California Water System mains about 2 miles distant. Over the 50 years since the formation of the Water District, the system has grown from about 75 customers to the current 278 customers.

## **DISCUSSION**

The Water District over the years has invested in new major plant equipment to meet its customer growth and needs. It believes its plan to sell to CWS is not only optimal but also beneficial to the Water District's ratepayers for the following reasons:

- Because the Water District is so small but has significant fixed overhead costs, the real cost of water delivered to the customers of the District is more than \$8.00 per unit. Other, larger districts in the area that are able to spread their overhead over a larger customer base are providing the same resource for less than \$2.50 per unit. The Water District feels it is simply unconscionable to continue to place this kind of financial burden on the community when a substantially more cost effective solution exists.
- The Water District feels that it is currently in a strong financial position to be viable for sale especially since the Water District has been able to operate, until now, without the services and the payroll of an operations manager. However, it foresees an increased cost of operating the water system in the future because of the need of an operations manager.
- The Los Trancos County Water District Board of Directors (Water District Board) has determined that the current mode of operation without an operations manager is no longer feasible. This future need for an operation manager is due to the increasing size of the District and the increasing complexity of the plethora of local, state and federal laws relating to water quality and safety. It is estimated that adding the costs of a part time operations manger will increase the already high overhead of the District by as much as 33% or almost \$100K (or about an additional \$2.00 per unit.)
- The Water District does not have an adequate supply of water to meet projected future growth in demand. Again, because of the limited customer base within the Water District, independent development of either surface or groundwater supplies would be extremely expensive for the Water District both on a capitalized cost and ongoing operating cost basis. Merging the existing excellent plant and equipment of the Water District with a much larger entity that can develop larger and more cost

effective water resources is a much more socially responsible solution to addressing the future needs of the Water District.

In light of the above reasons, the Water District Board on November 20, 2003, adopted resolution #186, which approved the terms and conditions for sale of the Water District's water delivery system and business to CWS. The Water District Board firmly believes that the sale of the water distribution assets of the water system is in the best interest of the population served by the Water District in view of the purchaser's technical and managerial expertise and financial resources.

A rate comparison between the Water District and CWS shows that the Water District customers indeed will be paying less for their water usage after the purchase. Below is the rate comparison using the Water District's Ordinance #62 rates (effective July 1, 2004) and CWS's latest tariff Schedule No. BG-1, General Metered Service, with an effective date of January 1, 2005; that CWS tariff was filed on November 22, 2004 in Advice Letter No. 1689 (see *Background*).

**TABLE 1**  
**Cost Comparison using Los Trancos County Water District and CWS's Tariffs**  
**(based on 17 Ccf monthly consumption)**

	Monthly Bill* Using Los Trancos's Tariff (a)	Monthly Bill Using CWS's Tariff (b)	Cost increment over CWS (c) = (a) - (b)
All areas except for Blue Oaks subdivision	\$62.06	\$52.99	\$9.07
For Blue Oaks subdivision	\$87.06	\$52.99	\$34.07

\* The Water District's service connection fee is \$25 per month for 85% of the customers and \$50 per month for the other 15% in the Blue Oaks subdivision. The extra \$25 per month is to pay off indebtedness associated with the construction of facilities related to the Blue Oaks subdivision in the Water District.

Because of the Water District's inclining block rate structure, the minimum monthly savings using CWS's tariff for a Water District customer consuming 21 Ccf during the summer months would be \$8.18 per month.

The proposed sale is also of benefit to CWS since CWS will be purchasing the Water District at far below the book value. The purchase price, as indicated in

the Purchase Agreement attached to the Advice Letter filing, is only \$125,000, while an independent auditor's report by C. G. Uhlenberg & Co. LLP of San Mateo, CA, shows that the assets value, as of June 30, 2004, is \$3,326,790. Attachment 1 shows the breakdown of the assets by original costs and accumulated depreciation. Attachment 2 shows the purchase cost allocation by equipment as determined by CWS. The Water District will retain its current assets of cash, investments and accounts valued at \$281,118 as indicated in the C. G. Uhlenberg & Co. LLP auditor's report of the Water District's Balance Sheet for June 30, 2004, revision March 8, 2005 (Auditor's Report). Also, in accordance to the wishes of the community and with the concurrence of the San Mateo County Board of Supervisors and the Local Agency Formation Commission (LAFCO), the Water District Board will determine, at a later date, on the disposition of the real property no longer pertinent to the water distribution operations. This remaining real property is not part of the proposed sale.

In addition to obtaining authorization from the Commission, CWS needs approval from the California Department of Health Services (DHS) and the City and County of San Francisco (CCSF).

- According to DHS, the application submitted by CWS was deemed complete on April 5, 2005, and its approval will be expected within the next 90 days.
- Because the Water District purchases all its water supply from CCSF's Hetch Hetchy's reservoir, CCSF's authorization is also required for water entitlement transfer to CWS. CCSF's Public Utilities Commission approved CWS's application in its Commission's meeting on March 22, 2005.

### **NOTICE AND PROTESTS**

In compliance with Section III-G of GO 96-A, CWS mailed a copy of Advice Letter No. 1658 to the affected municipalities and governmental agencies (the City of Menlo Park, City of Palo Alto, Town of Portola Valley, Town of Atherton and Town of Woodside), adjacent water companies and agencies (Menlo Park Water Department, Redwood City Water Department, Arastradero Mutual Water Company, Skyline County Water District and Los Trancos County Water District), Office of Ratepayer Advocates, and LAFCO. Because approval of this

advice letter will not result in an increase in rates to any of CWS's customers, CWS did not provide any notification to them.

There were two protests received by the Commission. Both were resolved satisfactorily.

- A Portola Valley couple living on Los Trancos Road sent a protest letter to the Commission on June 12, 2004. They claimed that the proposed sale was not given sufficient due process to address several issues of concern. The Water District Board in its July 8, 2004 response to the Commission regarding the protest adequately clarified those issues. The Water District held a special meeting on March 10, 2003 in Portola Valley to inform the customers of the proposed sale. Notice of the special meeting was mailed in a separate letter to all Water District customers. This meeting was in addition to discussions at regular Water District Board meetings and informal discussions at community picnics for both the Vista Verde Homeowners Association and the Los Trancos Woods Homeowners Associations. The issues raised by the Portola Valley couple had been addressed in those various discussions and forums.
- A Water District-area property owner, who resides in San Diego, California, called a Commission staff on December 20, 2004 to inform him that her previous attempt for water service was denied because the Water District had a moratorium on new connections. CWS responded to the Commission staff that CWS will have sufficient water supply to remove the moratorium when it acquires the Water District.

### **COMMENTS**

This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

### **FINDINGS**

1. CWS filed Advice Letter No. 1658 to seek approval to acquire the water distribution assets of the Water District, and to the changes to two tariff schedules, Sheet No. 6135-W Service Area Map and Sheet No. 6136-W Table of Contents (page1) resulting from the purchase. This filing is in pursuant to Commission decision D.97-03-028 in application A.95-09-005 et al dealing with a memorandum of understanding entered into between CWS and the Commission's Water Division, dealing with procedures by which CWS will notify the Commission of service area extensions, and in pursuant to GO 96-



A, Section I(E), dealing with the extension of service into contiguous territory not served by a public utility of like character.

2. The Water Division has reviewed the advice letter and supporting workpapers and finds them reasonable.

**THEREFORE IT IS ORDERED THAT:**

1. California Water Service Company (CWS) is authorized to purchase the water distribution assets from Los Trancos Water District for \$125,000. The assets to be purchased are attached to Advice Letter No. 1658 and this resolution.
2. California Water Service is authorized to make effective the changes in Tariff Schedule Sheet No. 6135-W, Service Area Map, and Sheet No. 6136-W, Table of Contents (page1), attached to Advice Letter No. 1658. The effective date of the changes shall be five days after the date of this resolution.
3. Within 45 days of the transfer of ownership, California Water Service shall notify the Director of the Water Division in writing that the transfer has taken place, attaching copies of the transfer document.
4. Within 45 days of obtaining the permit California Water Service shall provide the Director of the Water Division a copy of the permit to operate the water system granted to it by the Department of Health Services.
5. California Water Service shall, upon Commission staff request, make all books and records available for review and inspection. In the event such books and records are required for inspection by the Commission or its staff, California Water Service shall either produce such records at the Commission's offices or at another location in California, or reimburse the Commission for the reasonable costs incurred in having the Commission staff travel to out-of-State offices if the books and records are maintained there.
6. In accordance with the Uniform System of Accounts for Water Companies, California Water Service shall record the acquisition of the Los Trancos County Water District at the cost as shown in Attachment 2 of this resolution.
7. The authority granted in Ordering Paragraph 1 shall expire if not exercised within 12 months after the effective date of this order.

8. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on April 21, 2005; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

MICHAEL R. PEEVEY  
President  
GEOFFREY F. BROWN  
SUSAN P. KENNEDY  
DIAN M. GRUENEICH  
Commissioners

**Attachment 1**

**Asset Values (including additions) – Property\*, Plant and Equipment**

#	Description of Assets	Total Installed Cost/Value	Accumulated Depreciation to June 30,2004	Net Assets as on June 30, 2004
1	Supervisory Control Center at Webb Ranch	\$28,576	**\$22,861	\$5,715
2	Pressure Regulating Stations	\$24,720	\$8,379	\$16,341
3	Water mains	\$2,024,050	\$600,550	\$1,423,500
4	Fire Hydrants and Services	\$145,044	\$33,089	\$111,955
5	Vista Verde Station ("E")	**\$290,643	\$46,816	\$243,827
6	Bonita Station	\$528,947	\$94,262	\$434,685
7	Sunrise Tank	\$432,931	\$75,659	\$357,272
8	Los Trancos Station ("A")	\$107,747	\$14,054	**\$93,693
9	Pony Tracks Station ("F")	\$409,878	\$71,625	\$338,253
10	Spanish Station ("D")	\$113,936	\$10,599	\$103,337
11	Buck Meadows Station	\$240,257	\$42,045	\$198,212
	Total Property, Plant and Equipment	\$1,833,696.00	\$997,078.00	\$639,802.00
	Less Accumulated Depreciation up to 6/20/04	\$1,019,939		
	Net Property, Plant and Equipment on 6/20/04	\$3,326,790		

\*The land parcels on which the water system's plants and equipments are located were never valued when the land properties were acquired years ago during the construction of the water system. Therefore, there are no separate land asset values listed above for the various water system locations. (The Los Trancos County Water District President of the Board of Directors provided this information to the Water Division staff in a telephone conversation on March 9, 2005.)

\*\*Rounding off to the nearest whole dollar results in the totals not agreeing algebraically with the individual numbers before the summation or subtraction. In addition, the rounding-off results in totals not agreeing with the totals shown in the Auditor's Report (revision March 8, 2005). Therefore, these three numbers in the above table were either increased or decreased by \$1 so that the totals now agree algebraically with the antecedents and also with those numbers shown in the Auditor's Report

**Attachment 2**

**Purchase Cost Allocation of Assets**

#.	Equipment	Asset Cost Allocation	PUC Account Number
1	Main Control Panel	\$1,035	324
2	Pressure Reducing Valve	\$408	343
3	Water Mains	\$64,142	343
4	Fire Hydrants	\$2,987	348
5	Service Connections	\$1,627	345
6	Vista Verde Pump Station and Tank	\$10,265	324 (Pump station) 342 (tank)
7	Bonita Pump Station and Tank	\$19,006	324 (Pump station) 342 (tank)
8	Los Trancos Pump Station and Tank	\$3,480	324 (Pump station) 342 (tank)
9	Pony Tracks Tank	\$14,841	342
10	Old Spanish Trail	\$3,263	342
11	Buck Meadows Pump Station	\$3,946	324
	Total all equipment = Purchase Cost	\$125,000.00	